AUTO SECTOR

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Daihatsu's Crash Test Issue

DEVELOPMENT

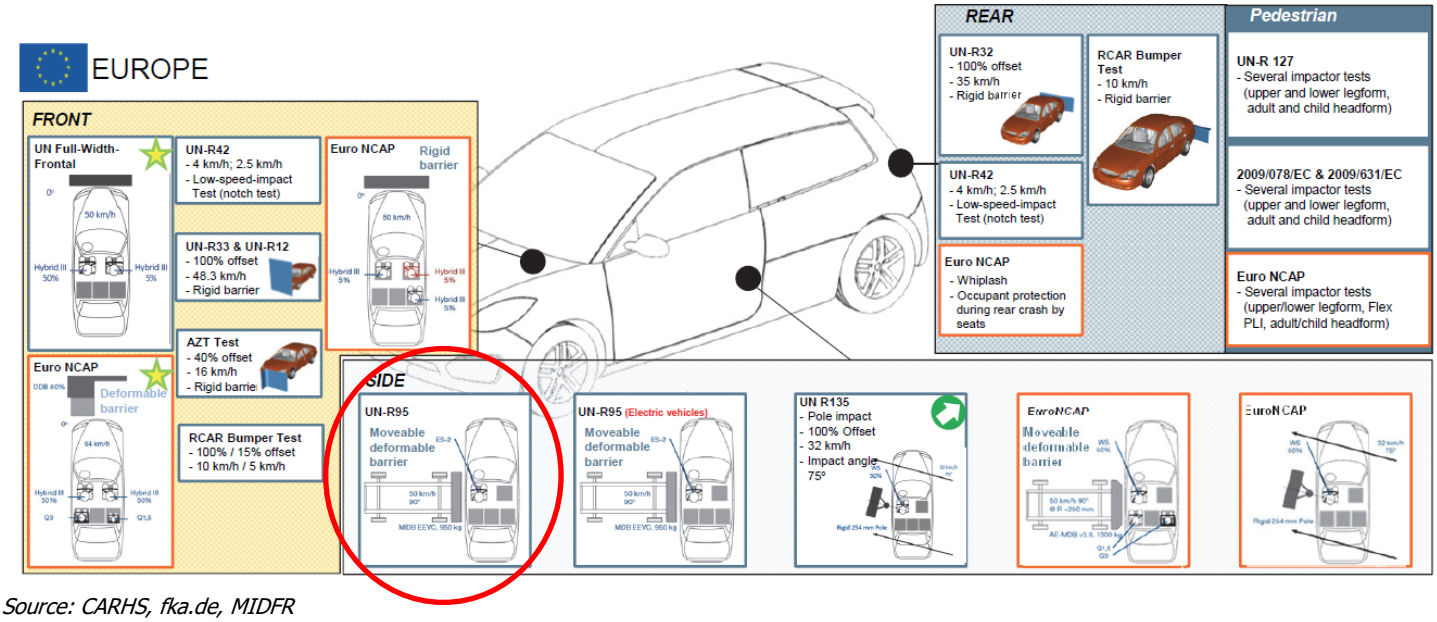
- Late last week, Daihatsu Motor Co Ltd (DMC) revealed that there were "procedural irregularities" in regards to the side collision impact safety testing for four models, namely the Toyota Agya, Perodua Axia, Toyota Yaris Ativ and an undisclosed upcoming product.
- The issue arose from the addition of a "notch" to minimise the risk of door panels breaking into sharp edges and causing injuries when the side airbag is deployed, whereby the modification is not present in production vehicles. According to DMC, of the 88K units affected, the majority 76K is reported to be the Yaris Ativ bound for Thailand, Mexico and the Gulf Cooperation Council countries.
- DMC also announced that production and sales of the affected models will be halted until a re-inspection is done in the presence of inspection and certification authorities. To address future concerns, Daihatsu has established an independent 3rd party committee to finalise details of the matter, analyse the root cause and compile measures to prevent a similar recurrence.

OUR VIEW

- Perodua's management has come out to clarify that despite the revelation by DMC, the UN-R95 certification accorded to Perodua Axia remains intact based on its engagement with the relevant safety testing authorities and agencies, following the news. As such, no recall will be issued nor will there be a halt in production of the Axia. To recap, the Perodua Axia attained a 4-star ASEAN NCAP rating during its test conducted in January 2023. The UN-R95 is one of the tests required to be carried out, specifically, in terms of passenger safety in the event of a side collision, whereby it is a pre-requisite for a 3-star (and above) ASEAN NCAP rating.
- A similar statement was issued by UMW Toyota's President on the Toyota Vios, highlighting that subsequent testing has validated that the Vios meets the UN-R95 certification and there is no need for the model to be recalled while sales and production will continue without disruption.
- According to Toyota Motor Thailand (which is Toyota's Asia Regional Headquarters), following the incident, DMC consulted the inspection & certification authorities and conducted an internal UN-R95 test for the Yaris Ativ with genuine mass production parts and confirmed that it complies with all UN-R95 requirements. Following this, judgement was made that there is no need for modification or any action for the concerned models. In addition, side impact testing using genuine parts in presence of the testing agency was again conducted on April 28th, whereby the testing agency verified that all UN-R95 requirements are complied with. However, specifically for Thailand, to meet witness testing requirements, re-inspection in Japan is necessary for resumption of shipment and sales.
- **MBMR (BUY, TP: RM4.70)** share price fell almost 2% last Friday, which could have been influenced by Daihatsu's revelation on the incident and the resultant concerns on the recently launched Perodua Axia. The latest positive developments following the incident should provide some relief to investors and could present an opportunity to buy on dips, in our opinion. The stock now trades at just 5.7x FY23F PER, ~25% discount to historical mean, and at current price, entails an attractive 7% dividend yield (FY23F: 40% dividend payout). We keep our **BUY** calls on both **UMW and MBMR** at unchanged **TPs of RM5.28 and RM4.70 respectively**.

Analyst(s)
Hafriz Hezry
hafriz.hezry@midf.com.my

Exhibit 1: UN-R95 Requirement for EURO NCAP, which is also adopted for ASEAN NCAP ratings



Source: CARHS, fka.de, MIDFR

Table 1: Sector Valuation Summary

		Shr Price	PE (x)		P/BV	ROE	Div Yield	Target	Total
Companies	**Rating**	**(RM)**	**FY23F**	**FY24F**	**(x)**	**(%)**	**(%)**	**Price (RM)**	**Upside (%)**
Bermaz Auto	BUY	2.31	10.2	9.3	3.1	30.7	6.8	3.20	45.4
Tan Chong	NEUTRAL	1.11	19.5	46.2	0.3	1.4	2.7	1.19	9.9
UMW Holdings	BUY	3.87	10.1	10.2	1.0	9.9	4.0	5.28	40.4
MBM Resources	BUY	3.59	5.7	5.7	0.6	11.1	7.0	4.70	37.9

Source: Companies, Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology